

183
MARKET DEVELOPMENT IN FOOD FOR PEACE:
IS IT WORKING?

Y 4.F 76/1:M 34/4

Market Development in Food for Peace...RING

BEFORE THE
SUBCOMMITTEE ON
ECONOMIC POLICY, TRADE AND ENVIRONMENT
OF THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

AUGUST 3, 1994

Printed for the use of the Committee on Foreign Affairs



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON, D.C.

APR 11 1995

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ISBN 0-16-046845-0

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MARKET DEVELOPMENT IN FOOD FOR PEACE: IS IT WORKING?

WEDNESDAY, AUGUST 3, 1994

HOUSE OF REPRESENTATIVES,
6 COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY,
TRADE AND ENVIRONMENT,
Washington, DC.

The subcommittee met, pursuant to call, at 2:05 p.m. in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the subcommittee) presiding.

Mr. GEJDENSON. I apologize for the delay. Today's hearing is the first in a series that the subcommittee will be holding in preparation for the reauthorization of the farm bill next year.

IN 1990 CONGRESS HANDED THE DEPARTMENT OF AGRICULTURE A REALLY TOUGH ASSIGNMENT

In 1990 Congress handed the Department of Agriculture a really tough assignment: To make a Title I program with multiple and often competing objectives work. Because Congress sometimes has a hard time narrowing its goals we ended up asking FAS to make combating hunger, economic development, trade expansion, market development, privatization and democratization all work in a single program of concessional loans for agricultural purchases from the United States.

Well, I don't think it comes as any great surprise that such an unwieldy program is having trouble yielding results. As GAO will testify, Title I has failed to achieve either market development or sustainable economic development—two of the most important goals set out for it by Congress.

As we prepare for the reauthorization of the Farm bill, we have to consider what we are going to do with this program. \$330 million, while only a drop in the bucket in relation to total U.S. Agricultural exports, is a lot of money to waste on a program if it is not working. If our aim is to get U.S. agricultural products sold overseas, we have to ask whether there are other programs that could accomplish this better, with fewer headaches for USDA, less hassle for the purchasing countries and greater certainty for the American farmer. What about a direct credit program or a larger export credit guarantee program or more funding in Titles II and III of Food for Peace? And let's not forget, there is always the option of cutting the funding altogether and sending it back to the U.S. Treasury for deficit reduction.

I will be very interested to hear what Mr. Goldthwait has to say about the GAO report and whether this is a program that can be fixed, should be completely redesigned, thrown out in favor of more workable agricultural export programs or deficit reduction.

Mr. Goldthwait. Dr. Mendelowitz.

STATEMENT OF MR. CHRISTOPHER E. GOLDTHWAIT, GENERAL SALES MANAGER, FOREIGN AGRICULTURAL SERVICE

Mr. GOLDTHWAIT. Thank you very much, Mr. Chairman. It is a pleasure to be here. With your permission I will summarize my statement briefly and ask it appear in full in the record.

In describing the Title I program, the Public Law 480 program in general, I termed it a venerable program. By this I mean it is a program which over time has served the United States very well in accomplishing areas of its objectives.

It also earned wide respect for its accomplishments over its 40-year lifetime. Venerable also indicates a certain age, a certain maturity in a program; and after 40 years, it is high time to take a look at the program and consider whether or not certain kinds of changes will help us produce a reoriented program which fits better with the current circumstances. This hearing I think is very useful coming at this particular point in time in this regard. It will be indeed in the context of the upcoming farm bill discussion we will need to make decisions about the Title I program as well as Public Law 480 in general.

A couple of very important things changed in the environment in which we execute food aid programs since the 1990 farm bill was enacted. First of all, we have seen emergencies of an unprecedented nature come forward. These are emergencies which are now much more man-made in contrast to those that we saw in the 1980's which were related to drought and other natural disasters. These are thus predictable as is the current situation in Rwanda.

The ability to respond to this is some of us putting a great deal of pressure on all of our food aid efforts. And increasingly, as your opening statement pointed out, Mr. Chairman, we are trying to execute programs under budget pressure and under budget pressure, I think, we need to look at ways in which our programs can be more flexible and can be better adapted to their particular objectives and to the particular countries that participate.

If I were to look at Title I in particular, I would point to several specific developments that perhaps lead to some of the problems that you outlined. First of all, since 1990, we have had a near-total change in the composition of countries that are participating in the program.

Secondly, we have had a continued situation of price disparity between U.S. prices and world market prices. While the concessionality of Title I overcomes this, sometimes the perception, particularly domestically within the recipient country, is that somehow the concessionality is less valuable than, in fact, it is.

We have seen circumstances vary greatly from country to country. This is especially true with respect to those economies in transition that we have seen come forward, countries which in 1 year or another may need a donational option; but after a couple of

years, are well on the way toward being able to satisfy their food aid gaps with concessional loans.

They need perhaps a broader combination of terms with respect to both price, length of credit, interest rates; all of these factors are things which differ more today in, shall we say, the post-cold war era; and happily, many of the recipient countries of Title I are making great progress, great strides for privatization of their economies. This, however, creates additional problems for a program like Title I, which is conducted on a government-to-government basis in which circumstances, governments may or may not pass through all of the benefits of the concessional to the privatized end users in countries.

So for all of these reasons, Title I is due for a review. What about the future? First of all, I think we need to remain focused on a couple of things that Title I does very well, some things that are right with Title I.

First of all, I believe it appropriately identifies a group of developing countries by income level which have a potential for becoming commercial markets for American agricultural exports over a relatively brief period of time.

Secondly, I would argue that USDA very much needs a food aid resource as the initial step or foundation for market development in this group of countries. That market development has a number of elements; and food aid leads toward it in particular ways that are different from commercial programming. We use our food aid to establish a commodity presence; we use it to create goodwill; and we use it to establish linkages between U.S. exporters and potential importers in those countries.

Looking forward further, what are some of the ideas that we may want to consider over the next few months as we are looking at how we might want to change this particular program? I would—I have put forward in my written statement and will summarize ideas in three areas. These are not yet recommendations but they are simply topics, points that emerged in our discussions that we think deserve careful scrutiny as we move forward.

First of all, I think we can all agree that it is time for a top to bottom operational review of the program. There are things that we can do internally—in fact, have already started to make some changes internally in our operations—that may be able to simplify participation for the recipient countries and for U.S. exporters and for U.S. shippers, as well.

FLEXIBILITY

I mentioned earlier flexibility. There are a number of elements in the agreements and the terms of the agreements we entered into with the recipient countries. Prices, grace periods, payback periods, interest rates and the range of commodities and the qualities of commodities that are involved are all elements that are of interest to the importer.

Perhaps we can look at a broader range of combinations of these characteristics. We can, for example, look at whether or not it might be possible to make sales at the same level of concessional to world market prices with the concessional to limited by a shorter payback period or by higher interest rates.

Just as you or I may go to a bank and decide on a different combination of interest rate and points when we get a mortgage, countries may have reasons why particular combinations of these factors I mentioned fit their circumstances better than other combinations. Maybe we need a broader array of those.

The responsiveness to the macroeconomic situation for a particular country is another area that I think we can look at. We deliver food aid across the full range of our programs in a variety of ways: by donation, under concessional loans; through local currency sales; and sometimes through private voluntary organizations. We might wish to look at whether within a single title we can combine some of these possibilities.

We might also look at questions like whether or not in many cases we want to deliver the food assistance through private entities rather than governments. These are a variety of the kinds of things that in 1 year or another year may change with respect to what a particular country of destination needs. And we might look at whether or not it could be left up to the Secretary to determine on an annual basis which of these sorts of approaches best meets the needs in a particular country.

These are just a few of the thoughts that we have. Some of the areas we want to look into overcoming months. I think, again, the comments you will hear from Dr. Mendelowitz, I think some of the comments we are going to hear from private voluntary organizations and exporters who use the Title I program, these are all things we will want to look at. I believe this hearing can be very constructive in terms of our focus on how we want our food aid programs to look.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Goldthwait will not be a part of the printed hearing record.]

Mr. GEJDENSON. Thank you.

Dr. Mendelowitz, it is great to have you back as always. You can review the accuracy of Mr. Goldthwait's statements and might want to embellish upon them at any stage. We obviously appreciate your counsel. Not that we don't trust Mr. Goldthwait, but we have such a long working relationship with you. We are always eager to hear your assessment of a witness' presentation. At the end, of course, we will give Mr. Goldthwait a chance to critique your comments. This saves us a lot of work.

STATEMENT OF MR. ALLAN I. MENDELOWITZ, MANAGING DIRECTOR, INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS, GOVERNMENT ACCOUNTING OFFICE

Mr. MENDELOWITZ. Thank you, Mr. Chairman. I will be happy to submit my full statement for the record and make a few brief comments.

REENGINEERING THE PROGRAM

I think Mr. Goldthwait is on the right track when he says the time has come to look at Public Law 480 in terms of reengineering the program. It is a program that has been around who years. Over those 40 years the program's objectives goals responsibilities have changed. While the legislation behind the program has changed,

the objectives have changed, the world situations have changed even more. When this program was originally passed, the United States had large amounts of agricultural surpluses.

We were the major provider of food assistance in the world. There were lots of countries that needed food imports. Public Law 480 met that need. It met the goal of feeding the hungry, moving surplus commodities, expanding U.S. exports at the time.

Since then the world has changed dramatically. The nature of food needs has changed dramatically. The government economies in both war reconstructed Europe and the developing world has progressed. The importance of Public Law 480 as a vehicle for moving commodities from the United States to foreign markets has declined substantially. It now represents less than 1 percent of U.S. agricultural exports.

The problem we think is that the program is way down with multiple competing objectives and requirements. While it does move some U.S. agricultural commodities to foreign markets and does help some recipient countries to meet food import needs, the program does not make a significant contribution to meeting important program objectives such as promoting broad-based sustainable economic development and long-term market development for U.S. agricultural exports.

SAVING SCARCE, HARD CURRENCY FOR RECIPIENT COUNTRIES

The ability to promote broad-based sustainable economic development is limited in a number of ways. The primary way in which the program can make a contribution to broad-based economic development is through saving scarce, hard currency for recipient countries. Namely, if a recipient country can use the Public Law 480 to save foreign exchange, they can be used to import capital goods to help economic development and will represent a contribution to that country's economic development.

However, the usual marketing restriction which basically says the countries or recipients of Public Law 480 money must continue to purchase through normal commercial quantities means that the Public Law 480-supported imports would be on top of normal commercial imports and, therefore, could not represent any hard currency savings and could not contribute in this way to broad-based sustainable development.

If, on the other hand, the broad-based sustainable development may be helped by the fact the usual marketing requirements aren't met, commercial imports decline, has kind of worn imports—replaced them—the country can save foreign currency; but, unfortunately, if that happens the usual marketing requirement is not met. If the usual marketing requirement is met, and Public Law 480 is, in fact, on top of the usual marketing requirement, the food supply in the recipient country increases; if it increases sufficiently, it can lower commodity and food prices in the recipient country; therefore, possibly adversely affecting the local domestic agricultural sector and one of the objectives is to see whether that develops and grows and is inherent.

The third reason we don't think the program can make a major contribution to broad-based sustainable development is that the amounts on a country-by-country basis are quite small. They are

quite small relative to the imports of the countries involved and quite small relative to the total amount of development assistance that the countries receiving Title I do receive. As a result, we do not have a lot of leverage to get countries to undertake development efforts that they don't intend to do or do not wish to do on their own.

With respect to market development over the long run, U.S. agricultural exports, we also believe there are contributions to be made. While the program does maintain a market presence in countries that are suffering from scarce hard currency and the ability to import food on a cash basis, this in itself is not a sure long-run market development. The commodities that are supported by the Title I program are primarily price-sensitive, bulk commodities and when you are selling price-sensitive, bulk commodities that in fact are undifferentiated by country of origin, it is very hard to develop product loyalty that is sustained after the assistance under the Title I program ends.

Secondly, there are legislatively mandated restrictions on the program that interfere with its ability to be an effective market development tool. Cargo preference requirements, for example, interfere with countries' ability to purchase exact commodities they want. The requirement that commodities offered on the docket be commodities that are in surplus—surplus, in fact, is defined as there is sufficient domestic production to sell—the requirement that programs support commodities on this docket that are not surplus means that we are not necessarily promoting products for which there is a market. In 1993, 22 different commodity categories were offered on the document Public Law 480; only six of these commodity categories were in fact sold under the program.

Third, the reexport restrictions that limit what a recipient country can do with the Title I commodities, and for that matter, what they can do with their own comparable commodities, limits the ability to sell products under the program and get others to comply.

Lastly, because the program is a government-to-government program, and it is a government-to-government program by its very nature, it does not promote private sector development of international commercial channels for the export of U.S. agricultural commodities, and we think that this is something that is problematic. In many of these recipient countries, one of the things that gets in the way of economic development is excessive government control and participation in the economies. This excessive government control and participation in economies has impeded economic growth. What these countries need is less government involvement in economies rather than more.

We think that the problems we identified support Mr. Goldthwait's observation the program is rife for reengineering, top to bottom review, figuring out how to take these resources, use them more effectively and we look forward to participating in that effort.

Thank you.

Mr. GEJDENSON. Thank you.

[The prepared statement of Mr. Mendelowitz will not be a part of the printed hearing record.]

Mr. GEJDENSON. Let me—are we setting out goals that make ourselves feel better, but are beyond what we can achieve in something that by definition is a commodity. So in the sense that, you know, the reason the commodity gets used in other terminology and as IBM found out, as you indicated, that when you are dealing with commodities, there is not a lot of product loyalty, that what you end up having is people may use computers, but they may not use your computers ever again, even if you have given them your first computer. And I mean maybe what we should do is look at it as—maybe what we should do is find a couple of programs.

One is find products that we want to move and use programs like EEP to get market share and in a sense, focus more on helping our exporters develop the feel for being overseas, and once that happens, we can get out; and I don't know if we can sustain this with the American people, but in other places we want to help poor people because they are poor and they are hungry and figure out a way to do it without destroying the local agricultural production and not kid ourselves that we are doing something else. Because one of the things that, you know, Pakistan has been on Title I for 37 years. Is it going to graduate at some point?

Mr. GOLDTHWAIT. Yes.

Mr. GEJDENSON. When does it graduate, do you know?

Mr. GOLDTHWAIT. I would think that when Pakistan's per capita income, which has been growing, grows by another few hundred dollars, it would probably be ripe for graduation. Of course the size of the program for Pakistan is considerably smaller than it was some years ago.

If I remember correctly, the current per capita income is somewhere around \$700 or \$800 a year, maybe a little higher. We begin to look at countries as candidates for graduation when they get to the \$1,000, \$1,200 a year level. At that point we believe countries should be in a position basically to finance all of their food needs; commercially, we would be able to look upon them as better candidates for our commercial credit program. Indeed, if you look at the combination of the food aid program and the commercial credit program, Pakistan has shifted much more heavily in the latter direction in recent years.

Mr. GEJDENSON. Do the recipients have a preference for any of the U.S. agricultural programs? What is their preference, if we are going to look at the customer in that sense?

Mr. GOLDTHWAIT. It varies a great deal from country to country. There are countries that remain very comfortable with the Title I program and prefer that; there are countries that are anxious to go as quickly as they can toward meeting all of their import needs on a purely commercial basis.

Mr. GEJDENSON. And for instance, when you use Title I in Rwanda, do you use it on the basis that it is food for peace?

Mr. GOLDTHWAIT. We actually do not use Title I in Rwanda; we transfer funding to AID, which then uses Title II in Rwanda.

Mr. GEJDENSON. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman. Thank you to the witnesses for your testimony.

Gentlemen, as you know, the Congress is busy considering the implementing language for the Uruguay Round trade agreement

and just this morning the House Foreign Affairs Committee agreed to language I had submitted with the chairman's assistance and gracious help, which would transfer the savings from required agricultural export subsidies reductions to GATT legal greenbox programs, including food aid. There are also other similar proposals that have been before the Agriculture Committee.

Could both of you attempt to elaborate on the potential effect of the Uruguay Round trade agreement, the effect it will have on our ability to reform the Title I program? Are there any constraints we have to be aware of in making this program more of an effective market development tool?

Mr. MENDELOWITZ. My understanding of the agricultural provisions of the GATT agreement are that it restricts the volume and funding for export subsidies, respects special subsidies, and it provides for minimum market access. The agreement at the same time does not place any restrictions on two types of programs currently. One is export credit programs, and the second is food aid, food assistance programs.

And I think that with that in mind, and I want to be—I don't have a definitive answer for you, but with that in mind, I think that any changes that are made with respect to Title I would require it to fall within the category of something that clearly is understood as a credit program or clearly is understood as a food aid program if the changes are not to run afoul of the GATT agreement.

In addition to the credit programs and the food aid programs, market promotion programs are also greenboxed. There are no restrictions.

CHANGES CONSISTENT WITH THE REQUIREMENTS OF THE URUGUAY ROUND

Mr. GOLDTHWAIT. I would add to what Mr. Mendelowitz just said that most of the kinds of changes, in fact I think probably all of the kinds of changes that are discussed in his testimony and that are discussed in my testimony, would be consistent as we see it with the requirements of the Uruguay Round.

Mr. BEREUTER. Are there any others that are out there under consideration discussed by Members of the Congress or elsewhere that you think are troublesome that would be violative?

Mr. GOLDTHWAIT. I have not heard any specific suggestions that I think would be in violation of the requirements of the Uruguay Round as far as food aid is concerned.

Mr. BEREUTER. All right. Now, it seems to me that one of the things we have to consider when we consider the efficacy of the Public Law 480 program, Title I part of it, is what is the effect of the program on lowering deficiency payments? If, in fact, we lowered deficiency payments, then I think USDA or GAO should have at least examined to what extent this is a favorable—has favorable fiscal impact or budgetary impact on that outlay. Have either of your agencies done something of this nature so that we can have a really more balanced look at the costs of the food assistance programs?

Mr. GOLDTHWAIT. We have not done a specific analysis of that at this point in time. That is the kind of question I think we will be

looking at in the coming months as we get closer to making specific recommendations for a farm bill.

It has been our view across the board with respect to both food aid and our commercial programs that generally speaking, there is a very important impact and a very important savings on deficiency payments that comes about when we maintain export levels. But we have tended to think of that in a total framework rather than singling out the individual impact of particular—of a particular food aid program.

Mr. BEREUTER. Well, I think it is fairly obvious that it has a favorable impact, and the question is, why hasn't USDA given us the kind of information that is necessary to this point so that when the food assistance programs are savaged by their critics, we at least have some econometric-generated information that we can use as an argument or a consideration, at least, to what those costs are. I hope you two do it. In fact, I think you are delinquent in not having done it many years ago. And I urge you to do such work. You are the agency that logically should do it.

Now, as an analytical tool of the Congress, it seems to me that GAO should have prompted them, should have—well, I am not sure that is your responsibility, but at least it seems to me it is a valid research project for you to take on if you haven't already. What is the story at GAO? Have you done anything in this respect?

Mr. MENDELOWITZ. We are actually in the process now of assessing the impact of the export programs to the former Soviet Union and Russia as it affected the domestic deficiency payments. We are attempting a project like that which is related to our export assistance programs, and to that major market.

Mr. BEREUTER. Are you trying to do that in a very quantitative fashion?

Mr. MENDELOWITZ. Yes, yes. That is exactly what we are trying to do.

Mr. BEREUTER. Good. It seems to me that same technique could be applied to the delivery of food assistance generally. I hope that you will do that if you haven't already intended to do it.

Mr. MENDELOWITZ. We will look into it.

Mr. BEREUTER. Thank you.

Mr. GOLDTHWAIT. We will as well.

Mr. BEREUTER. I may have further questions, but I yield back to you, Mr. Chairman.

[The information will not be a part of the printed hearing record.]

Mr. GEJDENSON. You know, one of the questions on Title I is, I guess, are we helping anybody; are we leaving these countries with long-term debt for a consumable, and we are not really creating markets in reality, because we decided already that it is a commodity. So you are not really developing the kind of relationship that is going to help our products any more than anybody else's, so maybe we should switch to Title II or to EEP or to something else.

But you know, Egypt has been on Title I for 28 years and switching over to EEP, I guess, and other programs, Jamaica for 21, Morocco for 30, Pakistan for 37, the Philippines for 31, Sri Lanka for 33, and Tunisia for 29, so you have a lot of long-term debt for things they have eaten already, and what are we doing for them?

PUBLIC LAW 480 IS NEITHER A NECESSARY NOR SUFFICIENT
CONDITION FOR ECONOMIC DEVELOPMENT

Mr. MENDELOWITZ. Well, I think that what that listing of countries really tells us is that Public Law 480 is neither a necessary nor sufficient condition for economic development. We have examples of many successful countries, for example, in East Asia which have developed rapidly, become major markets for U.S. agricultural products when they were never a major participant in Public Law 480. We have other countries that have been in Public Law 480 for many years and still remain in the program and still are fairly undeveloped. And so basically to expect that Public Law 480 could be the source of rapid economic development is to place an unrealistic expectation on them.

Secondly, with respect to the issue of the debts, I think you are sort of hitting on an issue which I think sort of divides those in the United States who view the program and understand its concessionality from the way some recipient countries view the program. Those in the West who are used to dealing with mortgages and costs and interest rates and real interest rates, nominal interest rates, we have—we know the value of something in hand versus the something we are going to get in the future; we know what the cost is if we pay it out today and we understand how that cost compares to some payment in the future. Public Law 480 is one that is highly concessionary. The interest rates are below market, the repayment terms are very long, and so from a purely analytical perspective, these countries are made better off in the sense that they receive their commodities at a substantially reduced real cost to them.

The problem for the recipients is they see themselves developing debt, do not quite understand it quite as sophisticatedly as we do.

Mr. GEJDENSON. I understand that, the time value of money and that if you bang it out over a longer period of time you are getting back less, but at the end of the day, 20 years from now they have a pile of debt for food they ate 15 or 20 years ago, and it may be a hard time to kind of address this in the kind of budget crunch that we are in, but I mean maybe we ought to stop kidding everybody and say, OK, we are going to go to another program that will sell you at a concessional rate and then you figure out your long-term debt structure, or are you saying this is a way to just lend them—the money is all fungible, and so these dollars are really building roads rather than the food, because we are not giving them long-term, low interest loans for roads or businesses they want to build, but we give it to them for food.

ARE THEY DISPLACING COMMERCIAL IMPORTS?

Mr. MENDELOWITZ. Well, the problem is whether they can use the money for food or not depends upon whether they are displacing commercial imports. If they are not displacing commercial imports, they are not using the hard currency for anything. And that is an important thing to keep in mind.

Mr. GEJDENSON. How do we know—you know, one of the things that I was reminded of when I watched a review of the whole Iraq

grain deal was that Saddam Hussein was buying concessional sales of grain, I forget under which program.

Mr. MENDELOWITZ. GSM.

Mr. GEJDENSON. GSM, and then he would actually sell the grain to somebody else at market rates, end up with some debt, but end up with the cash to buy his weapons.

Are we sure these poor countries, some of which don't have the best governments in the world, even some of the wealthy countries don't have the best governments in the world, are we sure that the food is actually getting to the people? I mean, do we—we obviously did a terrible job tracking the food going to Iraq. I don't know if that was intentional because we wanted him to get the money so he could buy the weapons because he was our client at that point; nobody stepped forward and said that, but some people assumed that. But how do we know that other countries aren't doing the same thing?

Mr. GOLDTHWAIT. If I could offer a couple of comments. First of all, we believe the report regarding Iraq is dead wrong. We believe the grain, based on all of the investigations we have done, went to Iraq. But leaving that aside—

Mr. GEJDENSON. You are telling me that the bank in Atlanta wasn't being used simply to get dollars to Saddam Hussein to buy weapons, that he was—actually bought grain?

Mr. GOLDTHWAIT. For the portion of what moved under the GSM-102 program, each of the several investigations that we have conducted has come up dry with respect to diversion.

Mr. GEJDENSON. And do you monitor the other programs to make sure that it is not happening someplace else?

Mr. GOLDTHWAIT. If they are not U.S. programs—well, the USDA programs are monitored. We do periodic audits; we require the report of documentation that shows arrival in country; we require reports on the disposition of the commodity.

Mr. GEJDENSON. You say documentation, so the country that is receiving this sends you a document that says the ship arrived?

Mr. GOLDTHWAIT. That is correct. And we perform periodic spot audits to make sure that the documentation we are receiving from various countries is accurate.

Mr. GEJDENSON. So if somebody creates the paperwork—how do you know the grain actually got off the ship there or the ship was ever there?

For instance, I am not in this business, but I could—I have got a machine that scans in images and I can create a great set of documents for you tomorrow that said that I bought millions of tons of grain, I brought it to my little island country and we thank you. And it was unloaded and the poor people who live on my island ate 41 million tons of grain last week.

Mr. GOLDTHWAIT. Well, under the Title I program, we have a tender which we oversee with respect to the arrangement of the freight. We know basically which U.S. shipper is going to load the grain where and when, and we know, because that is the term fixed in the contract, what the destination and what the discharge period of that is.

Mr. GEJDENSON. Mr. Mendelowitz, are you asserting that the grain got to Iraq and not just the cash and that that has happened

in other instances? I believe in these programs and I don't want to undercut them because of some dishonesty in any individual cases. But did you review the Iraq—did you spot audits, or are you confident that this audit system worked?

HISTORY OF A TROUBLED PROGRAM

Mr. MENDELOWITZ. The history of the GSM program during the 1980's in Iraq I think is a history of a troubled program. We identified cases where foreign commodities—in this case foreign tobacco was shipped to Iraq as U.S. tobacco. We identified examples of high pricing where clearly the commodities being shipped were worth less than the price being charged so that there was a margin in there that could be used for other things. And in response to these types of problems that were identified, there were measures taken to tighten up the program some.

Mr. GEJDENSON. Actually, USDA wanted to terminate the Iraq program and it was overruled by State, wasn't it?

Mr. GOLDTHWAIT. No. In fact, we did reduce the size of the Iraqi program quite considerably in its last year of operation.

Mr. GEJDENSON. After the war?

Mr. GOLDTHWAIT. No. There was prior to the war, prior to the war.

Mr. GEJDENSON. Dr. Mendelowitz, again, is the audit system one that you can have confidence in?

Mr. MENDELOWITZ. Well, I think that the way the Public Law 480 Title I program is run is less susceptible to abuse if someone wants to misuse the program than the GSM program, because it does involve much more government participation in the administration of the purchase and shipping of the commodity.

In the case of the GSM program, for the most part, the only time verification really becomes an issue is if someone makes a claim. If there is a default on the guarantees and someone makes a claim, then there is—that claim requires verification to ascertain that in fact program requirements have all been adhered to and that the claim can legitimately be paid.

If there is no claim, if there is no default, the amount of actual monitoring is substantially less. But Public Law 480 does have much more involvement; I think the potential for abuse is probably less.

Mr. GEJDENSON. I am going to ask each of you this question. This is my final question; Mr. Bereuter may have some others. Could you list for me in the order of their effectiveness as an expander of markets for American companies, American products—not the humanitarian side and other issues, which is a whole different set of values—which of these multitude of programs that we have here, GSM-102, GSM-103, EEP, Title I, Title II and what have you, list the agriculture programs that you are aware of with the most effective in helping us either develop or keep market share to those that are least effective in effecting the sale of American products, long-term or short-term. It is not a test question, so you won't get graded on it, but—

Mr. GOLDTHWAIT. Mr. Chairman, in giving the answer that I think is the correct one to that, I risk being accused of—

Mr. GEJDENSON. Dodging.

Mr. GOLDTHWAIT. Of dodging. But the purpose of each of these programs is significantly different, and in some cases the commodities for which they are best suited as support is considerably different. EEP is designed to achieve price competitiveness.

GSM-102 and 103 are designed to augment a buyer's liquidity, his ability to—his purchasing power. Title I is designed to, shall we say, take the first step in establishing a presence for U.S. commodities; that is the market development aspect there, in countries that cannot meet all of their import needs commercially.

MPP and our foreign market development program are promotional programs designed basically to gain recognition for U.S. product in country and to perform trade servicing activities to help the buyers best utilize and best appreciate the quality characteristics of our products.

So I find it very difficult to compare and rate the programs one against each other. Together, they perform—they form a range of services. And indeed, one of the focuses that we are looking at as we think further about the foreign bill is whether this reining in and of itself is sufficient or whether there are some additional gaps there of where we might want to do different things.

Mr. GEJDENSON. We will give you an incomplete, even though I said I wasn't going to grade you.

Mr. Mendelowitz, can you do better than that?

Mr. MENDELOWITZ. At least I have the advantage of trying to think up an answer while Chris was speaking. This is the second hearing where I have had that advantage.

WE MUST BE PRICE COMPETITIVE

I think that as you are dealing with, for example, bulk commodities, if you are not price competitive, you are not in the game. And because there are some bulk commodities that are priced in the United States above the world price or because there are some commodities where the market is spoiled by heavy subsidization by competitors, if we can't meet that world, what is in effect a world price, we can't sell. So the EEP is absolutely essential. The EEP is a little bit like the nuclear standoff. Even if you can demonstrate that EEP made no additional sales, it is an important program in terms of maintaining sales in spoiled markets. The EEP of course in the future will be less important because under the terms of the GATT agreement, less funds can be spent on it.

Then I would say the GSM program is quite important, because for exactly the reasons Chris identified; namely, if you have a customer whose sort of medium term economic prospects are pretty good, but they are short of cash today, making relatively short-term, 3-year credit available actually can be a quite powerful tool, and it is a type of credit program which gives us a competitive advantage. I don't believe any of our customers offer a credit program quite like the GSM program.

I guess after that I would have to say MPP falls farther down to the list and probably Public Law 480 as a long-term development tool is probably at the bottom of the list.

Mr. GEJDENSON. Thank you both.

Mr. Bereuter, any closing questions?

Mr. BEREUTER. Thank you very much, Mr. Chairman.

Mr. Mendelowitz, I notice on pages 30 and 31 of your written testimony, you indicate that USDA officials responsible for managing the Title I program said that they believe that recipient countries that have had an unfavorable experience with the Title I program because of consequences of using U.S. flagships are likely to choose not to purchase agricultural products in the United States on a commercial basis in the future.

That is a serious problem that you are identifying, if that is accurate, and I have no doubt that you probably are, because you give examples to support it.

Mr. MENDELOWITZ. Yes.

Mr. BEREUTER. And then you have an indication with the Polish example how they have refused assistance because Title I export restrictions would limit the country's ability to export its domestically produced textiles, an important source of foreign exchange.

Now, I know that in terms of economies in transition, Mr. Goldthwait, Poland, Romania, Slovakia, Bulgaria, and Latvia have chosen to drop out of Title I. I just heard from Mr. Mendelowitz why Poland may have dropped out. What is the reason, in your judgment, that these countries have dropped out of the Title I program?

CRITICAL NEED FOR FINANCING

Mr. GOLDTHWAIT. I think there are a variety of reasons. First of all, these countries were new to Title I as they began their economic transitions, and in the initial year or two of those transitions, there was really a critical need for financing for commodities.

I think two things are important here. One, the concessionality of the program is less well understood by people in these countries. Again, not having training in concepts that we are familiar with, like present value theory, even when—after we explained it very carefully, the government officials understand that, they are afraid of the perception at home that their opponents may use publicly of portraying the sale as a sale really above world market price. I think that is one factor.

The other factor I would think is that as these countries' economies began to stabilize or at least begin to stabilize, their needs changed; their own production which was dramatically interrupted for a year or two began to recover some in some commodities, and they began to have the ability, as I think Romania provides perhaps a very good case, to use the somewhat more flexible terms of the GSM-102 program rather than rely on an assistance program. So these are the kinds of things that led them I think to, after having been very grateful to have the program for a year or two, move on to something less concessional.

Mr. BEREUTER. How much of the ailment that Mr. Mendelowitz brought up in his report, the restrictions imposed as a result of the acceptance of Title I—the example he used was Poland in textiles—do you think is a factor in these five or six countries dropping out?

Mr. GOLDTHWAIT. Well, some of these complexities and restrictions undoubtedly make the program less attractive to the recipient countries. In many cases—

Mr. BEREUTER. Do you have any other examples where you know that they specifically dropped out for a particular reason or that at least was a major factor in their dropping out?

Mr. MENDELOWITZ. My understanding is that Latvia dropped out of the program because of the restrictions in the 1992 program with respect to exportation and because of what they felt was high price.

Mr. BEREUTER. Exportation—

Mr. MENDELOWITZ. The exportation restriction.

Mr. BEREUTER. Yes.

Mr. MENDELOWITZ. Other countries dropped out. For example, Slovakia I understand dropped out because they didn't want to take on additional debt, were concerned about exchange risk, the commodities were priced too high. So it is a range of reasons. But we do have other examples like Poland with respect to exportation limitation and Latvia is the first one that comes to mind.

Mr. BEREUTER. All right. I would like to have some more information on that, if you could supplement that in writing I would appreciate it.

[The information will not be a part of the printed hearing record.]

Mr. BEREUTER. I have one final question, Mr. Chairman. I think it is an important one. Title I commodities are highly price sensitive and countries will buy from whatever source that will give them the lowest price if, in fact, the delivery is fairly certain and in sufficient quantity. So how do we hang on to markets if Title I is abandoned?

Mr. GOLDTHWAIT. Well, in most cases where we see countries that graduate from Title I, we continue to support the exports through another mechanism, another program, either the credit in cases where our commodity prices are generally competitive, or in many cases, and this has been the case in Egypt, by use of the export subsidy program to achieve price competitiveness.

I would say that the impact of providing the Title I commodities and the goodwill that creates the linkages that that creates with our own exporters, I think those things are worth something on a price basis. But as Mr. Mendelowitz points out, when that price divergence gets too far, then we need to follow on with the support through something like the EEP.

Mr. BEREUTER. So that suggests that as they abandon Title I or move away from it, or as we eliminate it or reduce the effective outreach through it, we have perhaps directed additional responsibilities to the other programs; we may have to fund them to a greater extent if we want to hold on to those markets. Is that a fair conclusion?

Mr. MENDELOWITZ. I think that is how I interpreted Mr. Goldthwait's comments. The problem, though, that we run up against is the restrictions on the EEP program imposed by the GATT agreement, and I think that we need to think very carefully about how we try to reform the program. When you look—

Mr. BEREUTER. You think we can reform it and still keeping it effective within the restraints that we will now pick up under the Uruguay Round?

Mr. MENDELOWITZ. Well, as long as you stay with a credit food aid program like Public Law 480 or some new program with those types of structures to it, I believe it is quite possible to restructure a program within the confines or restrictions for what we are permitted to do under the Uruguay Round agreement.

IT IS POSSIBLE TO MAKE THE PROGRAM MORE EFFECTIVE

But the problem is all of the restrictions that we have put on the program in legislation and in administration in an effort to meet more objectives than it was reasonable to expect from the program, and if restrictions in the program were relaxed with respect to the types of commodities, how they are provided, channels used, it is possible to make the program more effective as a long-term market development tool.

Mr. BEREUTER. Mr. Goldthwait, do you have any final comments on that question?

Mr. GOLDTHWAIT. I would agree in large part with what Mr. Mendelowitz has just said. I think there are ways in which we can review some of the constraints that are currently a part of the program; I think we can do some things to make it simpler in its operations for both exporters, importers, and also for the shippers. Those are the kinds of things that we want to be looking at.

Mr. BEREUTER. Thank you. I hope that as you look at these innovations and proposed changes, that you will give us a chance to react at an early stage. It is not just the Agriculture Committee that is independent in this. This committee certainly is.

Mr. Chairman, I think it has been a valuable hearing. Thank you very much.

Mr. GEJDENSON. Thank you.

I would like to thank our two witnesses for coming before us again, especially Dr. Mendelowitz who is a regular here, and without objection, I will place a statement in the record by Ranking Republican, Mr. Roth, and with that, the committee stands adjourned.

[The prepared statement of Mr. Roth will not be a part of the printed hearing record.]

[Whereupon, at 3:00 p.m., the subcommittee was adjourned.]



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